

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Sanilac County Community Mental Health Au	County Sanilac
Fiscal Year End September 30, 2007	Opinion Date March 24, 2008	Date Audit Report Submitted to State March 31, 2008	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

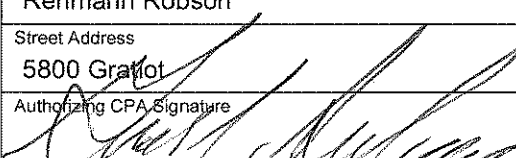
YES NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input type="checkbox"/>	None	
Other (Describe)	<input type="checkbox"/>	None	
Certified Public Accountant (Firm Name) Rehmann Robson		Telephone Number 989.799.9580	
Street Address 5800 Grand		City Saginaw	State MI
Zip 48638			
Authorizing CPA Signature 	Printed Name Gerald J. Desloover, CPA		License Number 1101007126



# Sanilac County Community Mental Health Authority

Sandusky, Michigan

Financial Statements

For the Year Ended  
September 30, 2007



**REHMANN ROBSON**

*Certified Public Accountants*

# SANILAC COUNTY COMMUNITY MENTAL HEALTH AUTHORITY

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# REHMANN ROBSON

*Certified Public Accountants*

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## INDEPENDENT AUDITORS' REPORT

March 25, 2008

The Board of Directors  
Sanilac County Community  
Mental Health Authority  
Sandusky, Michigan

We have audited the accompanying financial statements of the governmental activities, the major fund and the aggregate remaining fund information of the ***Sanilac County Community Mental Health Authority*** (the "Authority") as of and for the year ended September 30, 2007, which collectively comprise the Authority's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the major fund and the aggregate remaining fund information of the Authority as of September 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparison of the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 25, 2008, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion

on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis listed in the table of contents on pages 3-9 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in black ink, reading "Lehmann Lohman". The signature is written in a cursive, flowing style with a large initial 'L'.

**SANILAC COUNTY  
COMMUNITY MENTAL HEALTH AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

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The financial management of Sanilac County Community Mental Health Authority has written this management's discussion and analysis. We offer readers of these financial statements this narrative and analysis of the financial activities of the Authority for the fiscal year ended September 30, 2007. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities and to identify significant changes in financial position. We encourage readers to consider the information presented here in conjunction with the financial statements as a whole.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis is intended to provide a basis of understanding of the Sanilac County Community Mental Health Authority's basic statements. These statements comprise three components: (1) governmental-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements.

**Government –Wide Financial Statements**

The government-wide financial statements are designed to provide readers with a broad overview of the Sanilac County Community Mental Health Authority's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the Sanilac County Community Mental Health Authority's assets and liabilities, with the differences between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenditures are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., unused vacation and sick pay).

**Fund Financial Statements**

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Sanilac County Community Mental Health Authority, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The funds of the Authority can

be divided into two categories: governmental funds and proprietary funds. The Authority maintains one governmental fund and one proprietary fund.

***Governmental funds.*** *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds (modified accrual) statements with similar information presented for government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Sanilac County Community Mental Health Authority adopts an annual appropriated budget for the operating fund. A budgetary comparison statement has been provided to demonstrate compliance with this budget.

***Proprietary funds.*** Proprietary funds are used to account for governmental activities that are similar to activities that may be performed by a commercial enterprise. However, unlike a commercial enterprise whose purpose is to maximize return on capital, the purpose of a proprietary fund is to provide a service or product to the governmental unit at a reasonable cost. An Internal Service Fund is a type of proprietary fund used to provide services to a governmental unit.

## **Notes to the Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund (modified accrual) financial statements.

## **FINANCIAL HIGHLIGHTS**

### **Government-Wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. As shown on the following chart, the Authority's assets exceeded liabilities by \$3,823,042 at the end of the fiscal year.

The net assets is separated into three major components; investment in capital assets (e.g., building, vehicles and equipment), which amounted to \$2,492,988 or 65% of net assets and

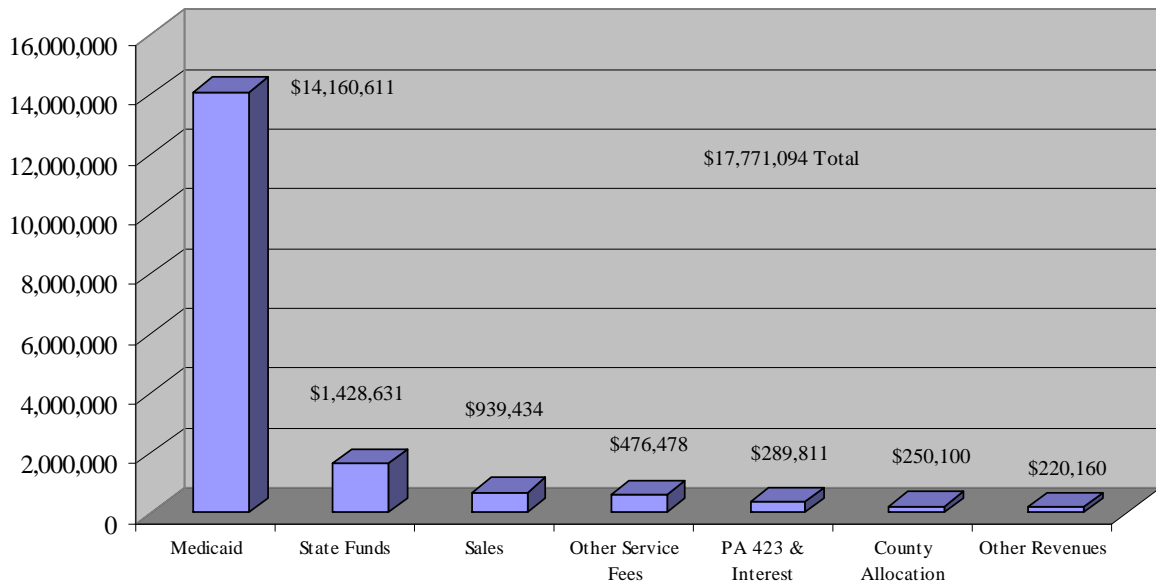
unrestricted net assets of \$1,330,054 or 35% of net assets. Unrestricted net assets may be used to meet the government's ongoing obligations to its programs.

<b>Statement of Net Assets</b>	<b>Governmental Activities</b>	
	<b>2006</b>	<b>2007</b>
Current and other assets	\$ 4,236,513	\$ 3,720,343
Capital assets	<u>2,310,637</u>	<u>2,492,988</u>
<b>Total assets</b>	<b><u>\$ 6,547,150</u></b>	<b><u>\$ 6,213,331</u></b>
Long-term liabilities outstanding	\$ 265,512	\$ 250,724
Other liabilities	<u>2,385,792</u>	<u>2,139,565</u>
<b>Total liabilities</b>	<b><u>\$ 2,651,304</u></b>	<b><u>\$ 2,390,289</u></b>
Net assets:		
Invested in capital assets, net of related debt	\$ 2,310,637	\$ 2,492,988
Restricted from future contract losses	129,697	-
Unrestricted	<u>1,455,512</u>	<u>1,330,054</u>
<b>Total net assets</b>	<b><u>\$ 3,895,846</u></b>	<b><u>\$ 3,823,042</u></b>

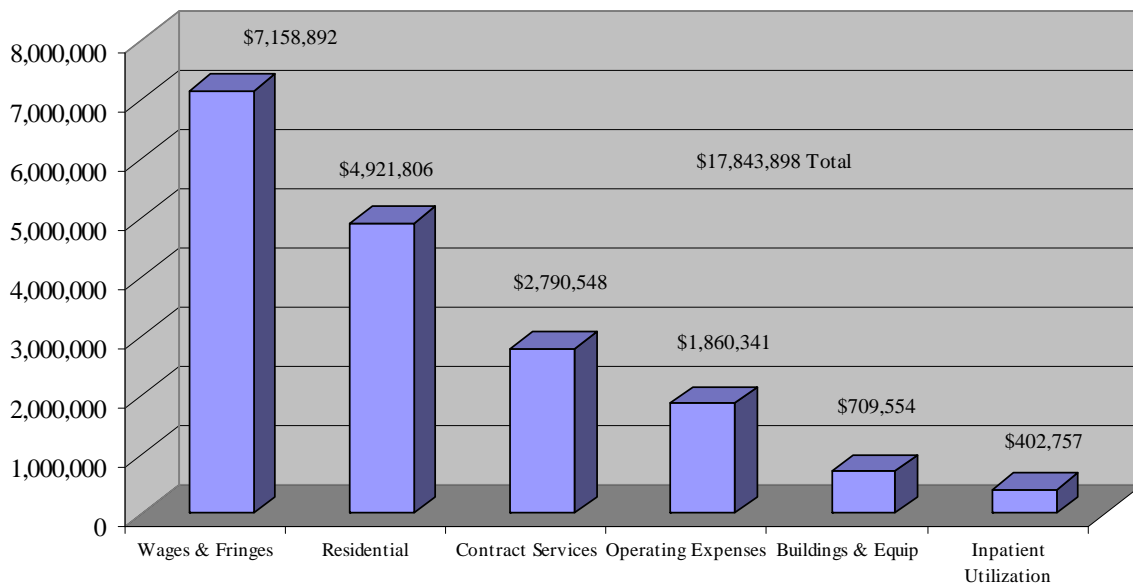
When comparing this fiscal year to the previous year, net assets have decreased by \$72,804, which is less than 1% of annual revenues.

<b>Statement of Activities</b>	<b>Governmental Activities</b>	
	<b>2006</b>	<b>2007</b>
Revenues:		
State and local	\$ 1,758,425	\$ 1,967,966
Charges for services	15,576,523	15,368,956
Interest and grants	268,288	374,182
Other revenues	<u>161,989</u>	<u>59,990</u>
<b>Total revenues</b>	<b>17,765,225</b>	<b>17,771,094</b>
Expenses	<u>17,833,620</u>	<u>17,843,898</u>
Decrease in net assets	(68,395)	(72,804)
Net assets at beginning of year	<u>3,964,241</u>	<u>3,895,846</u>
<b>Net assets at end of year</b>	<b><u>\$ 3,895,846</u></b>	<b><u>\$ 3,823,042</u></b>

### 2006-07 Revenue - Governmental Activities



### 2006-07 Expenditures - Governmental Activities



## **Financial Analysis of Fund Statements**

**Government funds.** As noted earlier, the focus of the governmental fund (modified accrual) financial statements is to provide information on the near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Authority's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Authority's governmental fund reported an ending fund balance of \$1,782,422, a decrease of \$138,489 from the prior year. Approximately 81% or \$1,447,466 of the fund balance constitutes unreserved fund balance, which is available for spending at the Authority's discretion; however, \$504,272 is designated for compensated absences and \$397,414 is designated for postemployment health benefits. The remainder of fund balance of \$545,780 or 31% is reserved to indicate that it is not available for new spending because: 1) it is the value of inventory which is not available for current expenditure and 2) is for prepaid expenditures.

**Proprietary funds.** Sanilac County Community Mental Health Authority maintains one proprietary fund in the form of an Internal Service Fund. The Internal Service Fund ("ISF") was established to secure funds as a strategy for covering risk exposure under the Michigan Department of Community Health Managed Mental Health Supports and Services Contract. The ISF is made up of a State Funding component.

As of the end of the current fiscal year, the Authority's ISF reported a net assets balance of \$0, a decrease of \$113,084 from the prior year. The Authority was required by contract to reduce the ISF funding and the funds were used as a source of current year revenue. The Authority's contract with the Department of Community Health requires that the ISF not exceed a five year state facility demand spike. The Authority has had declining utilization of state facilities over the last five years.

## **BUDGETARY HIGHLIGHTS**

Sanilac County Community Mental Health Authority annually prepares formal budgets with amendments made when necessary on a quarterly basis. Each of the amendments are approved by the Board and submitted to the Department of Community Health. The actual revenues of \$17,765,888 were less than 3% variant of the original budget and equal to the final budget.

Sanilac County Mental Health did not spend the total available Medicaid funding allocated to the Board by the St. Clair Prepaid Inpatient Health Plan by \$615,161. These funds contributed to a Medicaid savings/carryforward of \$3,715,263 recorded at the St. Clair Prepaid Inpatient Health Plan. This Medicaid savings, along with other member savings, is redistributed back to the PIHP members, as revenue, in the following year. Sanilac County Community Mental Health's share of the Medicaid savings for fiscal year 2008 is \$905,207.

Sanilac County Mental Health did not spend the total available State funding as allocated by the Department of Community Health by \$131,863 due largely to an increase in Medicaid eligible consumers receiving services that otherwise would have been State funded. The Authority engaged in a 236 transfer agreement with St. Clair CMH Authority for \$100,000 and recorded \$31,863 as deferred revenue.

The actual expenditure of \$17,904,377 was a decrease from the Original Budget of \$18,243,926, or \$339,549 (less than 2%).

## **CAPITAL ASSETS**

The Authority had \$2,492,988 in capital assets, net of accumulated depreciation, at September 30, 2007. This is an increase of \$182,351 over the previous year. The Authority purchased land, building, vehicles and other equipment totaling \$413,140 during the current year. The breakdown of assets at September 30, 2007, is as follows:

Land	\$ 139,810
Buildings and improvements	2,146,480
Vehicles	886,425
Equipment and machinery	<u>688,066</u>
Total	3,720,971
Accumulated depreciation	<u>(1,367,793)</u>
<b>Capital assets, net of depreciation</b>	<b><u>\$ 2,492,988</u></b>

Further information regarding capital assets can be found on pages 23-24 of the financial statements.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

The State of Michigan, the primary source of funding for Sanilac County Community Mental Health, is facing major budget deficits for fiscal 2008.

However, management believes that no program reductions will be required in the 2008 budget year as a result of the State deficit. This is possible due in part to Medicaid savings carried forward from prior years, which can be used to offset these funding cuts/changes in fiscal 2008. The Authority's share of the Medicaid carryforward at September 30, 2007, is \$905,207. In addition, it is expected that the PIHP will have additional Medicaid revenues left, absent further budget cuts or a decline in the Medicaid eligible population, to use as savings for fiscal year 2009. There have been no decreases in the State allocation to Sanilac County Community Mental Health.

The management of Sanilac CMH has implemented several cost containment measures in this audit year that will impact favorably on next year's budget. This includes a reduction in staff/consumer ratios in the programs and the provision of more service days. Management also negotiated the purchase of a group home that was previously leased.

## **CONTACTING THE AUTHORITY MANAGEMENT**

This financial report is designed to provide a general overview of the Sanilac County Community Mental Health Authority's finances and to show accountability. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the Finance Director, Sanilac County Community Mental Health Authority, 171 Dawson Street, P.O. Box 31, Sandusky, MI 48471.

**SANILAC COUNTY COMMUNITY MENTAL HEALTH AUTHORITY**  
**STATEMENT OF NET ASSETS AND**  
**GOVERNMENTAL FUND BALANCE SHEET**  
**SEPTEMBER 30, 2007**

	GENERAL FUND	ADJUSTMENTS	STATEMENT OF NET ASSETS
<b>ASSETS</b>			
Cash and cash equivalents	\$ 2,468,709	\$ -	\$ 2,468,709
Restricted assets - cash and cash equivalents	397,414	-	397,414
Accounts receivable	292,823	-	292,823
Due from state	60,707	-	60,707
Due from other governmental units	113,830	-	113,830
Inventory	191,940	-	191,940
Prepaid expenditures/expenses	143,016	-	143,016
Net pension asset	-	51,904	51,904
Capital assets not being depreciated	-	139,810	139,810
Depreciable capital assets, net	-	2,353,178	2,353,178
<b>TOTAL ASSETS</b>	<u><u>\$ 3,668,439</u></u>	<u><u>2,544,892</u></u>	<u><u>6,213,331</u></u>
<b>LIABILITIES AND FUND BALANCE</b>			
<b>LIABILITIES</b>			
Accounts payable	\$ 986,055	-	986,055
Due to state	3,055	-	3,055
Due to other governmental units	615,161	-	615,161
Accrued payroll and benefits	249,883	-	249,883
Deferred / unearned revenue	31,863	-	31,863
Long-term liabilities			
Due within one year	-	253,548	253,548
Due in more than one year	-	250,724	250,724
<b>TOTAL LIABILITIES</b>	<u><u>1,886,017</u></u>	<u><u>504,272</u></u>	<u><u>2,390,289</u></u>
<b>FUND BALANCE</b>			
Reserved for inventory	191,940	(191,940)	-
Reserved for prepaid expenditures	143,016	(143,016)	-
Unreserved:			
Designated for compensated absences	504,272	(504,272)	-
Designated for postemployment health benefits	397,414	(397,414)	-
Unreserved and undesignated	545,780	(545,780)	-
<b>TOTAL FUND BALANCE</b>	<u><u>1,782,422</u></u>	<u><u>(1,782,422)</u></u>	<u><u>-</u></u>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<u><u>\$ 3,668,439</u></u>		
<b>NET ASSETS</b>			
Invested in capital assets		2,492,988	2,492,988
Unrestricted		1,330,054	1,330,054
<b>TOTAL NET ASSETS</b>		<u><u>\$ 3,823,042</u></u>	<u><u>\$ 3,823,042</u></u>

The accompanying notes are an integral part of these financial statements.

**SANILAC COUNTY COMMUNITY MENTAL HEALTH AUTHORITY  
RECONCILIATION OF FUND BALANCE ON THE BALANCE SHEET  
FOR THE GOVERNMENTAL FUND TO NET ASSETS OF  
GOVERNMENTAL ACTIVITIES ON THE STATEMENT OF NET ASSETS  
SEPTEMBER 30, 2007**

Fund balance - general fund	\$	1,782,422
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Amounts reported for *governmental activities* in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add - capital assets		3,860,781
Deduct - accumulated depreciation		(1,367,793)

Certain other assets are not available to pay for current period expenditures and, therefore, are not reported in the funds

Add - net pension asset		51,904
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Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds

Deduct - accrued sick and vacation		(504,272)
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Net assets of governmental activities	\$	3,823,042
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The accompanying notes are an integral part of these financial statements.

**SANILAC COUNTY COMMUNITY MENTAL HEALTH AUTHORITY**  
**STATEMENT OF ACTIVITIES AND**  
**GOVERNMENTAL FUND REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCE**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2007**

	GENERAL FUND	ADJUSTMENTS	STATEMENT OF ACTIVITIES
REVENUE			
State allocation	\$ 1,643,400	\$ -	\$ 1,643,400
P.A. 423 funds	119,347	-	119,347
Charges for services - Medicaid	14,103,120	-	14,103,120
Charges for services - sales	680,874	-	680,874
Charges for services - other	584,962	-	584,962
Contributions from County	205,219	-	205,219
Other grants	138,898	-	138,898
Interest	230,078	5,206	235,284
Rent	18,845	-	18,845
Other revenue	41,145	-	41,145
	<hr/>	<hr/>	<hr/>
TOTAL REVENUE	17,765,888	5,206	17,771,094
	<hr/>	<hr/>	<hr/>
EXPENDITURES / EXPENSES			
Wages and fringe benefits	7,155,310	3,582	7,158,892
Contracted services	2,790,548	-	2,790,548
Operating	1,742,051	118,290	1,860,341
Residential	4,921,806	-	4,921,806
Inpatient	402,757	-	402,757
Buildings and equipment	891,905	(396,038)	495,867
Unallocated depreciation	-	213,687	213,687
	<hr/>	<hr/>	<hr/>
TOTAL EXPENDITURES / EXPENSES	17,904,377	(60,479)	17,843,898
	<hr/>	<hr/>	<hr/>
REVENUE OVER (UNDER) EXPENDITURES / CHANGE IN NET ASSETS	(138,489)	65,685	(72,804)
	<hr/>	<hr/>	<hr/>
FUND BALANCE / NET ASSETS			
BEGINNING OF YEAR, AS RESTATED	1,920,911	1,974,935	3,895,846
	<hr/>	<hr/>	<hr/>
END OF YEAR	\$ 1,782,422	\$ 2,040,620	\$ 3,823,042
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

The accompanying notes are an integral part of these financial statements.

**SANILAC COUNTY COMMUNITY MENTAL HEALTH AUTHORITY  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE OF  
THE GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED SEPTEMBER 30, 2007**

Net change in fund balances - total governmental fund	\$ (138,489)
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add - capital outlay	413,140
Deduct - depreciation expense	(213,687)
Deduct - loss on disposal of capital assets	(17,102)

The reduction of the Authority's long-term liability for the net pension obligation did not provide current financial resources, and was consequently not reported in the funds.

Deduct - reduction of net pension asset	(18,370)
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Add - decrease in the accrual of compensated absences	14,788
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The net revenue (expense) of the internal service fund is reported with governmental activities

Less - operating expenses of the internal service fund	(118,290)
Add - interest revenue from the internal service fund	5,206

Change in net assets of governmental activities	\$ <u>(72,804)</u>
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The accompanying notes are an integral part of these financial statements.

**SANILAC COUNTY COMMUNITY MENTAL HEALTH AUTHORITY**  
**STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE -**  
**BUDGET AND ACTUAL**  
**GENERAL FUND**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2007**

	BUDGETED AMOUNTS			ACTUAL OVER (UNDER) FINAL BUDGET
	ORIGINAL	FINAL	ACTUAL	
REVENUE				
State allocation	\$ 1,537,723	\$ 1,643,400	\$ 1,643,400	\$ -
P.A. 423 funds	172,904	119,347	119,347	-
Charges for services - Medicaid	14,718,281	14,103,120	14,103,120	-
Charges for services - sales	850,000	680,874	680,874	-
Charges for services - other	507,000	584,962	584,962	-
Contributions from county	250,100	205,219	205,219	-
Other grants	187,918	138,898	138,898	-
Interest	-	230,078	230,078	-
Rent	-	18,845	18,845	-
Other revenue	20,000	41,145	41,145	-
TOTAL REVENUE	18,243,926	17,765,888	17,765,888	-
EXPENDITURES				
Wages and fringe benefits	7,400,417	7,155,310	7,155,310	-
Contracted services	2,500,702	2,790,548	2,790,548	-
Operating	1,913,369	1,742,051	1,742,051	-
Residential	5,223,880	4,921,806	4,921,806	-
Inpatient	473,951	402,757	402,757	-
Buildings and equipment	731,607	891,905	891,905	-
TOTAL EXPENDITURES	18,243,926	17,904,377	17,904,377	-
NET CHANGE IN FUND BALANCES	-	(138,489)	(138,489)	-
FUND BALANCE, BEGINNING OF THE YEAR, AS RESTATED	1,920,911	1,920,911	1,920,911	-
FUND BALANCE, END OF YEAR	\$ 1,920,911	\$ 1,782,422	\$ 1,782,422	\$ -

The accompanying notes are an integral part of these financial statements.

**SANILAC COUNTY COMMUNITY MENTAL HEALTH AUTHORITY  
STATEMENT OF NET ASSETS  
PROPRIETARY FUND  
SEPTEMBER 30, 2007**

INTERNAL  
SERVICE FUND

ASSETS

Due from other funds	<u>\$ -</u>
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NET ASSETS

Restricted for future contract losses	<u>\$ -</u>
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The accompanying notes are an integral part of these financial statements.

**SANILAC COUNTY COMMUNITY MENTAL HEALTH AUTHORITY**  
**STATEMENT OF REVENUE, EXPENSES AND CHANGES IN FUND NET ASSETS**  
**PROPRIETARY FUND**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2007**

	<u>INTERNAL SERVICE FUND</u>
OPERATING EXPENSES	
Services and charges	\$ 118,290
NONOPERATING REVENUE	
Interest earned on investments	<u>5,206</u>
CHANGE IN NET ASSETS	(113,084)
NET ASSETS, BEGINNING OF YEAR, AS RESTATED	<u>113,084</u>
NET ASSETS, END OF YEAR	<u><u>\$ -</u></u>

The accompanying notes are an integral part of these financial statements.

**SANILAC COUNTY COMMUNITY MENTAL HEALTH AUTHORITY  
 PROPRIETARY FUND  
 STATEMENT OF CASH FLOWS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2007**

	<u>INTERNAL SERVICE FUND</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash payments for interfund services	\$ (118,290)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest received	<u>5,206</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(113,084)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>113,084</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ -</u></u>
RECONCILIATION OF OPERATING INCOME TO NET CASH USED IN OPERATING ACTIVITIES:	
CASH FLOWS FROM OPERATING ACTIVITIES	
Operating loss (equal to net cash used in operating activities)	<u><u>\$ (118,290)</u></u>

The accompanying notes are an integral part of these financial statements.

# **SANILAC COUNTY COMMUNITY MENTAL HEALTH AUTHORITY**

## **NOTES TO FINANCIAL STATEMENTS**

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### **I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the **Sanilac County Community Mental Health Authority** (the “Authority”), a Community Mental Health Authority established under Section 205 of the Michigan Mental Health Code, have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Government Accounting Standards Board (GASB) is the accepted standards-setting body for establishing governmental accounting and financial reporting principles. The more significant of the accounting policies of the Authority are described below.

#### **A. Reporting Entity**

As indicated above, the Authority is a Community Mental Health Authority, serving the mental health needs of Sanilac County residents. Its Board of Directors is appointed by the County Commissioners of Sanilac County. The Authority is not a component unit of Sanilac County and has no entities included in its financial statements as component units.

#### **B. Government – Wide and Fund Financial Statements**

The government-wide financial statements (e.g., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of the interfund activity has been removed from these statements. *Governmental activities*, which normally are used to account for the receipt and disbursement of monies for general operations, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. The Authority has no business-type activities.

Separate financial statements are provided for governmental funds and proprietary funds. The general fund is the Authority’s only major fund and is reported as a separate column in the financial statements.

#### **C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

# SANILAC COUNTY COMMUNITY MENTAL HEALTH AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

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Governmental fund financial statements are reported using the *current financial resources measurement* focus and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period or within one year for reimbursement-based grants. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Intergovernmental revenues, charges for services and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The Authority reports the following major governmental fund:

The *general fund* is the Authority's primary operating fund. It accounts for all financial resources of the entity, except those required to be accounted for in another fund.

Additionally, the Authority reports the following fund type:

The *internal service fund* is used to secure funds as part of an overall strategy for covering risk exposure under the Michigan Department of Community Health Managed Specialty Supports and Services Contract.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the government's internal service fund are charges to the general fund for services. Operating expenses for the internal service fund include the cost of

**SANILAC COUNTY  
COMMUNITY MENTAL HEALTH AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS**

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services and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

**D. Assets, Liabilities and Net Assets or Equity**

**1. Deposits and Investments**

The Authority's cash and cash equivalents consist of deposits in checking accounts, other demand accounts and amounts deposited in a pooled liquid asset account.

*Statutory Authority*

Michigan law authorizes the Authority to deposit and invest in:

- a. Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified institution.
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- d. Banker's acceptances of United States banks.
- e. Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
- f. Mutual funds registered under the investments company act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- g. External investment pools as authorized by Public Act 20 as amended through December 31, 1997.

**SANILAC COUNTY  
COMMUNITY MENTAL HEALTH AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS**

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**2. Restricted Assets**

In the General Fund, certain funds have been restricted as to their use for the future postemployment benefits of key personnel. Currently, there is one employee receiving postemployment benefits.

**3. Accounts Receivable**

Client accounts receivable and revenue are recorded when client services are performed. A substantial portion of the Authority's revenue from services to clients is received under contractual arrangements with Medicaid, Medicare and Michigan Blue Cross/Blue Shield programs, whereby the Authority is paid based on allowable costs incurred. The preliminary settlement of amounts due to the Authority is subject to redetermination upon audit by the applicable agency. An estimated provision is made for possible adjustments that may result from such reviews and any differences between the amounts accrued and amounts settled are recorded in operations in the period of settlement.

**4. Interfund Receivables/Payables**

During the course of operations, transactions occur between funds for goods and services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet.

**5. Inventory**

The Authority values inventory at cost using the "first-in, first-out" (FIFO) method of accounting. The inventory consists of supplies and materials used in certain activities related to the developmental disabilities programs. The costs of expendable supplies used in other programs are recorded as expenditures when purchased.

**6. Prepayments**

Payments made to vendors for services that will benefit periods beyond September 30, 2007, are recorded as "prepaid expenses/expenditures" in the accompanying balance sheet and statement of net assets.

**7. Capital Assets**

Capital assets, which include property, plant, and equipment are reported in the governmental activities columns in the government – wide financial statements. Capital assets are defined by the Authority as assets with an initial, individual cost of

**SANILAC COUNTY  
COMMUNITY MENTAL HEALTH AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS**

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more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Capital assets of the Authority are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Building and improvements	20-50
Equipment	4-10
Machinery	5-12
Vehicles	4-10

**8. Compensated Absences**

Employees earn from 10 to 25 days of vacation and 12 days of sick time each year. Employees are allowed to carryover 30 days (225 hours) of vacation time from year-to-year. At retirement, employees will be paid 100% of the hours times their current pay rate. Employees are also allowed to carryover up to 130 days (975 hours) of sick time from year-to-year. Per the union contract, employees are paid for 100% for up to 225 hours (30 days) and are paid 50% for hours between 226 to 975 (31 to 130 days). Any sick hours in excess of 975 (130 days) is not paid by the Authority to the employee.

**9. Deferred/Unearned Revenue**

Deferred/unearned revenue represents that portion of the current year Michigan Department of Community Health (MDCH) contract amount and unused grant funding that may be expended in the subsequent fiscal year. Such carryover of the MDCH contracted allocation is generally limited to five percent of the MDCH contract amount. Total deferred/unearned revenue of \$31,863 represents the carryover of the MDCH contracted allocation.

**SANILAC COUNTY  
COMMUNITY MENTAL HEALTH AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS**

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**II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**A. Budgets and Budgetary Accounting**

An annual budget is adopted in accordance with Michigan Law for the Authority's General Fund. The budget is adopted on a basis consistent with GAAP and with the requirements of the Michigan Department of Community Health. Budget amounts are presented as amended by the Board of Directors.

**III. DETAILED NOTES ON ALL FUNDS**

**A. Deposit risk**

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned. State law does not require and the Authority does not have a policy for deposit custodial credit risk. As of year end \$2,998,308 of the Authority's bank balance of \$3,198,308 was exposed to custodial credit risk because it was uninsured and uncollateralized.

**B. Capital Assets**

Capital asset activity for the year ended September 30, 2007, was as follows:

	<b><u>Beginning Balance</u></b>	<b><u>Additions</u></b>	<b><u>Disposals</u></b>	<b><u>Ending Balance</u></b>
Capital assets not being depreciated:				
Land	\$ 139,810	\$ -	\$ -	\$ 139,810
Capital assets being depreciated:				
Buildings and improvements	1,966,617	179,863	-	2,146,480
Equipment	584,238	115,283	(105,938)	593,583
Machinery	94,483	-	-	94,483
Vehicles	<u>865,927</u>	<u>117,994</u>	<u>(97,496)</u>	<u>886,425</u>
Total capital assets being depreciated	<u>3,511,265</u>	<u>413,140</u>	<u>(203,434)</u>	<u>3,720,971</u>

**SANILAC COUNTY  
COMMUNITY MENTAL HEALTH AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS**

	<b><u>Beginning Balance</u></b>	<b><u>Additions</u></b>	<b><u>Disposals</u></b>	<b><u>Ending Balance</u></b>
Less accumulated depreciation				
Buildings and improvements	\$ (96,299)	\$ (62,299)	\$ -	\$ (158,598)
Equipment	(429,514)	(62,394)	88,836	(403,072)
Machinery	(81,471)	(7,343)	-	(88,814)
Vehicles	<u>(733,154)</u>	<u>(81,651)</u>	<u>97,496</u>	<u>(717,309)</u>
Total accumulated depreciation	<u>(1,340,438)</u>	<u>(213,687)</u>	<u>186,332</u>	<u>(1,367,793)</u>
Total capital assets being Being depreciated, net	<u>2,170,827</u>	<u>199,453</u>	<u>(17,102)</u>	<u>2,353,178</u>
Total capital assets, net	<u>\$2,310,637</u>	<u>\$199,453</u>	<u>\$ (17,102)</u>	<u>\$2,492,988</u>

**C. Due To State**

For the year ended September 30, 2007, the operations of the Authority were conducted under the terms and conditions of its contract with the Michigan Department of Community Health (MDCH). The amount due to the State represents the balance owed to the MDCH for excess Medicaid and State funded managed care proceeds that were not expended in the current year.

**D. Long-Term Debt**

Long-term obligations for the year ended September 30, 2007, were as follows:

	<b><u>Balance October 1, 2006</u></b>	<b><u>Additions</u></b>	<b><u>(Reductions)</u></b>	<b><u>Balance September 30, 2007</u></b>	<b><u>Due Within One Year</u></b>
Accrued compensated absences	<u>\$ 519,060</u>	<u>\$ 504,272</u>	<u>\$ (519,060)</u>	<u>\$ 504,272</u>	<u>\$ 253,548</u>

**SANILAC COUNTY  
COMMUNITY MENTAL HEALTH AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS**

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**IV. OTHER INFORMATION**

**A. Risk Management**

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and injuries to employees. During the year ended September 30, 2007, the Authority carried commercial insurance to cover all risks of losses. The Authority pays premiums to Sanilac County for workers compensation coverage. Sanilac County purchases workers compensation coverage for all County and Authority employees through the Michigan Association of Counties. The Authority had no settled claims resulting from these risks that exceeded their commercial coverage in any of the past three fiscal years.

**B. Risk Management Internal Service Fund**

The Sanilac County Community Mental Health Authority established an internal service fund during the year ended September 30, 1999, in accordance with the provisions of its Managed Specialty Supports and Services Contract with the Michigan Department of Community Health (MDCH). Under the terms of this contract, an internal service fund can be established if future medical expenditures are anticipated to exceed 105% of the funding to be provided under a managed care program. The fund can only be used to finance future expenditures not covered under the managed care program.

During the year ended September 30, 2003, the Authority became a part of the St. Clair Prepaid Inpatient Health Plan (PIHP) where the management responsibility for Medicaid Specialty Mental Health Supports and Services transfer from the Authority to the PIHP.

**C. Defined Benefit Pension Plan**

Plan Description

The Authority contributes to the Sanilac County Employee Retirement Plan and Trust, an agent multiple-employer defined benefit public employee retirement system (PERS) that acts as a common investment and administrative agent for both Sanilac County and the Sanilac County Community Mental Health Authority. The PERS is considered part of Sanilac County's financial reporting entity and is included in the County's primary government financial statements as a pension trust fund. The plan is administered by the Sanilac County Retirement Board. A copy of that report may be obtained by writing to the Sanilac County Board of Commissioners Office, 60 West Sanilac, Sandusky, MI 48471 or by calling (810) 648-2933.

**SANILAC COUNTY  
COMMUNITY MENTAL HEALTH AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS**

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Funding Policy

The Authority is required to contribute at an actuarially determined rate; the current rate is 8.73% of annual covered payroll. Employees are currently not required to contribute to the Plan. The contribution requirements and benefit provisions of the plan members and the Authority are established and may be amended by the Sanilac County Retirement Board.

Annual Pension Cost and Net Pension Obligation (Asset)

The Authority's annual pension cost and net pension asset for the current year were as follows:

Annual required contribution	\$ 410,137
Less: Interest on net pension asset	(4,405)
Plus: Adjustment to annual required contribution	<u>22,775</u>
Annual pension cost	428,507
Contributions made	<u>410,137</u>
Decrease in net pension asset	18,370
Net pension (asset), beginning of year	<u>(70,274)</u>
Net pension (asset), end of year	<u><u>\$ (51,904)</u></u>

For the year ended September 30, 2007, the Authority's annual pension cost of \$428,507 was more than the Authority's actual and required contribution of \$410,137. The required contribution was determined as part of the December 31, 2005, actuarial valuation using the individual entry age actuarial cost method.

The actuarial assumptions included (a) a rate of return of the investment of present and future assets of 7.25% per year compounded annually, (b) projected base salary increases of 4.25% per year compounded annually, attributable to inflation and additional projected salary increases of 0% to 3.7% per year, depending on age, attributable to seniority / merit, and (c) the assumption that benefits will not increase after retirement. The actuarial value of the assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return and includes an adjustment to reflect fair value. The Authority's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at December 31, 2006, the date of the latest actuarial valuation, was 17 years.

**SANILAC COUNTY  
COMMUNITY MENTAL HEALTH AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS**

**Three-Year Trend Information**

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation (Asset)</u>
2005	\$ 428,792	99%	\$ (142,903)
2006	497,448	85%	(70,274)
2007	428,507	96%	(51,904)

**Schedule of Funding Progress**

<u>Actuarial Valuation Date December 31</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL) Entry Age</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a % of Covered Payroll</u>
2004	\$7,241,734	\$ 7,793,630	\$ 551,896	92.9%	\$ 4,187,709	13.2%
2005	8,177,954	7,600,520	(577,434)	107.6%	3,796,107	-15.2%
2006	9,145,539	8,719,183	(426,356)	104.9%	4,342,327	-9.8%

**D. Commitments and Contingencies**

In the normal course of operations, the Authority becomes a party to various claims and lawsuits. In the opinion of the legal counsel and Authority management, the ultimate resolution of such matters will not have a material effect on the financial position of the Authority.

**SANILAC COUNTY  
COMMUNITY MENTAL HEALTH AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS**

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**E. Restatement**

During the year ended September 30, 2007, a prior period adjustment in the amount of \$16,613 was necessary to properly account for assets and equity reported in the Internal Service Fund that should have been accounted for in the General Fund. The effects on the fund balance in the General Fund and net assets in the Internal Service Fund were as follows:

**General Fund**

Fund balance, beginning of year, as previously stated	\$ 1,904,298
Prior period adjustment:	
Cash in Internal Service Fund	<u>16,613</u>
Fund balance, beginning of year, as restated	<u>\$ 1,920,911</u>

**Internal Service Fund**

Net assets, beginning of year, as previously stated	\$ 129,697
Prior period adjustment:	
Cash in Internal Service Fund	<u>(16,613)</u>
Net assets, beginning of year, as restated	<u>\$ 113,084</u>

\* \* \* \* \*



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED  
ON  
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH *GOVERNMENT AUDITING STANDARDS***

March 25, 2008

The Board of Directors  
Sanilac County Community  
Mental Health Authority  
Sandusky, Michigan

We have audited the financial statements of the governmental activities, the major fund and the aggregate remaining fund information of the *Sanilac County Community Mental Health Authority*, as of and for the year ended September 30, 2007, and have issued our report thereon dated March 25, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered *Sanilac County Community Mental Health Authority's* internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the *Sanilac County Community Mental Health Authority's* internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the *Sanilac County Community Mental Health Authority's* internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the *Sanilac County Community Mental Health Authority's* ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the *Sanilac County Community Mental Health Authority's* financial statements that

is more than inconsequential will not be prevented or detected by the *Sanilac County Community Mental Health Authority's* internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the *Sanilac County Community Mental Health Authority's* internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as identified above.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the *Sanilac County Community Mental Health Authority* financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Finance Committee and the *Sanilac County Community Mental Health Authority* Board of Directors and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.